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SUBJECT: IRAQ PARLIAMENTARY COMMITTEE CHAIRS ON CAPACITY
BUILDING AND LEGISLATION

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 1B. 2006 BAGHDAD 3655
 1C. 2007 BAGHDAD 64

Classified By: Economic Minister Counselor Marc Wall for reasons 1.4(b)
and (d)

11. (C) Summary: Council of Representatives (COR) Economic Committee Chairman Haider al-Abadi and COR Finance Committee Chairman Ayad al-Samarrai told EMIN in separate meetings that the overall situation in Iraq has greatly improved. Abadi warned that these improvements have led Iraqis to have higher expectations, and unless met, these higher expectations could lead to disillusionment with democracy in Iraq. Lack of government expertise and technical know-how affects both the executive and legislative branches of Iraq's government. This leads to slow budget execution and poorly designed laws that often have unintended consequences. Passage of the hydrocarbons legislation will take international pressure to convince the KRG to compromise. Sammarai is advocating changes to the budget process to make it more transparent and to increase the COR's oversight of government spending. The FY 2009 budget legislation has not yet been submitted to the COR. Abadi is pushing for a USD 2.2 billion housing assistance package that will provide low-interest loans and be funded in FY 2009 to start addressing Iraq's need for three million new housing units over the next five years. Consumer protection, customs and tariffs, and labor laws are also in the works as Iraq seeks to improve its legal and regulatory framework to strengthen the private sector. End summary.

12. (C) EMIN and Econ Counselor met with Council of Representatives (COR) Economy, Investment and Reconstruction Committee Chairman Haider al-Abadi on September 4 and separately with COR Finance Committee Chair Ayad al-Samarrai on September 7. At the September 4 meeting, Abadi outlined the major executive and legislative challenges facing the GOI leadership. Abadi is a member of the Dawa Party and prior to joining the COR was an advisor to Prime Minister Maliki. From 2003-2005, he was the Minister of Communications. Abadi has a PhD in Electrical Engineering from Manchester University in the UK. Sammarai, a senior member of the Sunni Iraqi Islamic Party, echoed many of Ayad's concerns on economic issues and outlined a Sunni perspective on several political issues that will be reported separately. Sammarai graduated from Baghdad University with a BS in Engineering in 1970, and worked in Baghdad, Jordan, and the UAE.

Iraq Improving -- But Change Must Come Faster

13. (C) Abadi said that the overall situation in Iraq has greatly improved over the past year -- "You can feel it in the street." With this improvement, however, the expectations of the Iraqi people have also gone up. "Things no one thought of asking for before are now considered essential." These high expectations mean that Iraq needs to move quickly to take the small, important steps that are

needed to show Iraqis that things are getting better or else they will "get fed up with democracy." "This could have the dangerous effect of encouraging some Iraqi army officers to launch a coup d'etat that would have the support of the people," he cautioned.

GOI Needs Help Contracting Projects

¶4. (C) According to Abadi, the largest problem facing the Iraqi Government is its lack of capacity to conceive and execute government spending projects. Ministry employees lack the skills necessary to adequately review and implement procurement and contracting procedures. Iraqi government employees need capacity-building and training "otherwise they will continue to end up with projects that are not up to spec," he said. Abadi noted that GOI ministry employees are not well-equipped to select appropriate contracting companies for projects. As U.S. assistance declines over time, GOI capabilities will need to be increased.

¶5. (C) Abadi's solution would be to contract this function out to internationally-reputable companies. "A lot of GOI officials are not au fait with this notion" due to their misunderstanding of national sovereignty issues, he noted. "These problems are serious and they are delaying the reconstruction of Iraq," he said. Many projects in the 2008 budget have been stalled for six months already. Abadi said that he is aware that both Turkish and German companies are "getting involved."

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Laws With Unintended Consequences

¶6. (C) As in the executive branch, the COR's legislators "greatly need to develop our own expertise." Iraq was a closed, socialist society and most members of the COR "don't know the how the rest of the world works." As a result, "many pieces of legislation" passed by the COR "have holes in them that end up negating the law's intent." Citing the civil service pay raise as an example, Abadi noted that the intent was to raise Iraqis' standard of living, but ended up raising inflation and hurting the standard of living of the "poorer people." Further, even though the GOI's strategy is to encourage people to move from the public to the private sector, the civil service salary increase is "actually encouraging people to move to public sector jobs."

HCL: Will Take International Pressure to Get Done

¶7. (C) Abadi was not sanguine about the passage of the hydrocarbons legislation (HCL) in the current session of parliament, but noted that "we have talked about this at political meetings and know that we can not continue on this ad hoc basis and leave everything up to the Minister of Oil. Blaming the GOI's "Kurdish partners," for the delays, he said that since they have their own law and are moving fast to make their own deals, they are not in any rush to move forward on national legislation. Abadi also saw the hand of "neighboring countries" in the legislation's political problems, saying that they have waged a "negative campaign" to delay Iraq's ability to compete with their own oil exports. Further delays in the passage of the HCL are "very worrying for us" since there has been increasing pressure from some in Basra who see that the KRG is holding onto and controlling their oil profits and wonder why Basra should not receive the same treatment. Passage of the HCL will require international pressure on the KRG, he said.

¶8. (C) Sammarai noted that the United States and Europe

appeared far more concerned about the passage of the HCL than the average Iraqi. The average Iraqi thinks that Iraq is not able to effectively spend the money it is already earning, so why be concerned about getting more, he said. Political leaders do see the importance of passing the HCL. Sammarai said that Iraq would greatly benefit from the other investments and businesses that would come along with Western oil companies.

2009 Budget Prognosis: "Security is No Longer an Excuse"

¶ 9. (C) Legislation for the 2009 budget law, is already "very much delayed," said Abadi, noting that the COR should have already received the Ministry of Finance's draft annual budget proposal. "It's been promised, but I haven't seen it." EMIN described the Embassy's new Public Finance Management Action Group (PFMAG) initiative and Abadi observed that this type of assistance is "very, very important." Abadi supports increasing the size of local governments' capital budgets; he is anticipating that this will be part of the 2009 budget. (Note: Planning Minister Baban told Treasatt in an August 18 meeting that he too expected a "significant increase" in capital budget allocations to the provinces in the FY 2009 budget. End note).

¶ 10. (C) Sammarai, separately, was less concerned than Abadi that the Finance Committee had not yet received a draft of the FY 2009 budget law. While the COR had passed the 2008 supplemental budget with little review, for "political reasons," Sammarai said that he expected to spend more time reviewing the details of the 2009 budget (ref C). "We expect that we will be better informed and we insist that this budget will be done on time," he said. Sammarai said that one of his biggest concerns was the "emergency spending" portion of the budget controlled by the Minister of Finance. "Of course there will be emergencies, but USD 1 billion is too much; we plan to decrease it to a minimum," he said.

¶ 11. (C) Sammarai noted that how much of the budget allotted to the Kurdistan Regional Government (KRG), "whether 13 percent or 17 percent" was a political decision and not one that in which the COR would play a role. "Once political agreement is made, we are not going to question it," he added. Sammarai was emphatic, however, that this political decision be made before the budget was submitted to the COR so that political squabbling did not end up bogging down the passage of the budget.

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¶ 12. (C) Sammarai also wanted the budget process to be more transparent and to minimize the Ministry of Finance's ability to make changes in the budget. The COR will be expecting regular reports on government spending so that it can conduct proper oversight. In the past, the Finance Ministry had blamed security problems to justify budget changes. "This now is no longer an excuse," he said.

2009 Housing Bill

¶ 13. (SBU) Iraq needs three million new housing units within the next five years. Abadi said that he shares the Minister of Finance's belief that these new houses need to be built by the private sector with government assistance. Housing legislation is now moving forward in the COR that would provide USD 2.2 billion in FY 2009 to fund low-cost loans in order to jump-start private sector construction. (Abadi sees the state itself building some housing for the benefit of low-income individuals.) Abadi wants to be certain that all segments of society benefit from new housing and not just the wealthy, as he noted, was the case with "90 percent" of the new housing in the Kurdish provinces. Abadi noted that

sustaining GOI efforts on housing over the long term is vital. An additional advantage of a sustained building program would be to train workers. "We have a real shortage of trained labor; the wars we have been through have drained Iraq of trained labor," he said. (Comment: Though commendable as an effort by the GOI to jump-start this sector, this plan does not appear to address the difficult issues of land distribution, sustainable financing mechanisms, structural inefficiencies in cost of construction, and lack of contracting- and building-capacity. End comment.)

Other Laws in the Works

¶14. (SBU) Several other laws that make up key components of Iraq's Legislative Action Plan for WTO accession are also scheduled to move to the COR this session. A Consumer Protection law and an Anti-Monopoly law should both be submitted to the COR soon. The Customs and Tariffs Law is also in its final stages of drafting and will be submitted to COR soon. Abadi said that the tariff structure introduced by the CPA, despite its "many flaws," has been extended until the new bill becomes law. However, many COR representatives have expressed concern about the benefits of Iraq joining the WTO, a problem that can be solved by increased public relations work. (NOTE: We have received conflicting reports from the Ministries of Finance and Trade regarding the Customs and Tariffs bill, and understand that a vigorous debate within the Council of Ministers may delay the bill's advancement to the COR. See ref A and septel. End note.)

¶15. (SBU) EMIN informed Abadi that labor unions in the United States have proposed removing Iraq's Generalized System of Preferences (GSP) protection due to concerns about Iraq's labor conditions. Abadi noted that new Labor Law is in the pipeline, but held up by controversy over how "stringent" the minimum wage should be. The current law was written in the "socialist era" and no one is following it, Abadi said. A reformed labor law, with pension and other protections, could provide Iraqis with a "sense of hope" with regard to working in the private sector. Iraq does not have a child-labor problem; "This is not India," he said. There are no children working in industry, but children do sometimes work in their parents' shops selling goods.

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